

CALIFORNIA DEPARTMENT OF CORPORATIONS

What You Need to Know About Payday Loans

What is a Payday Loan?

Payday loans are also called “cash advances” or “deferred deposits.” In a payday loan, a borrower writes a check to a lender in exchange for a short-term cash loan. For example, a borrower writes a \$300 check, pays the \$45 fee, and receives \$255 in cash. The lender does not cash the check until the borrower’s next payday, up to 31 days.

Fees for Payday Loans:

Under California law, the maximum loan amount a consumer can borrow in a payday loan is \$300. The maximum fee a payday lender can charge is 15% of the face amount of the check (up to a maximum of \$45). Additional fee restrictions apply for military servicemembers and their dependents.

The fee is equivalent to an annual percentage rate (APR) of 460% for a two-week loan. The actual APR may vary, depending on the term of the loan.

APR is the total annual interest rate that a borrower pays on a loan, including all fees and charges. APR is used to reveal the total cost of borrowing money. By comparison, a loan for a new car may have an APR of 4-7%.

If You Take Out a Payday Loan:

Borrow only as much as you can afford to pay back in full on your next payday. On the loan due date, some borrowers find they cannot afford to pay back the loan. Borrowers are encouraged **not** to take out a second loan from another payday lender to repay the first, as this can lead to a cycle of debt from which it will be expensive and difficult to recover.

Loans to Military Members and their Dependents:

Because of recent changes in federal and California law that restrict payday loan fees for military servicemembers and their dependents, some payday lenders may chose not to make loans to servicemembers and their dependents.

California Payday Lending Laws Protect You:

- In California, **all** payday lenders must be licensed by the Department of Corporations. Use the Department's website or call Toll-Free to verify a lender's license or to file a complaint.
- A payday lender may only make you **one** loan (which cannot exceed \$300), and may only charge a **maximum fee** of 15% of the total amount of the check (up to \$45). Additional fee restrictions apply for military servicemembers.
- Payday lenders are required to visibly post their CA license and a fee schedule at every location.
- A payday lender **cannot** make you a new loan to pay off an existing loan.
- A payday lender **cannot** make you a new loan while an existing loan with the same lender is outstanding, even if the combined balance of the existing loan and the new loan does not exceed \$300.
- If your check bounces, the payday lender may charge only **one** bounced check fee (up to \$15).
(Be careful — your bank may charge you additional fees for insufficient funds.)
- Additional fees **cannot** be charged if you request an extension of time or payment plan. However, the payday lender is not legally required to grant your request.
- By law, the contract for a payday loan **must** be provided to you in the language you primarily used to negotiate with the lender.
- A payday lender **cannot** threaten to prosecute you in criminal court for insufficient funds.
- You may also have other legal protection under California law. If you need help or suspect violations of the law, please contact the Department of Corporations.

If You Have Credit Problems:

Call your creditors and ask to waive late fees, reduce the interest rate, and/or work with you to establish a re-payment schedule that will work for you.

If you have missed bill payments or have other credit troubles, you may benefit from the services of a financial counselor. Counselors help review your entire financial situation and help you develop a personalized money management plan. Be careful — just because a debt management agency claims to be “non-profit” doesn’t guarantee the services are legitimate or affordable.

A reputable agency should send you free information without requiring you to provide any personal details. Look for a range of services, including budget counseling and savings and debt management classes. Avoid any that push a debt management plan as your only option before they analyze your financial situation.

Visit the **National Foundation for Credit Counseling (NFCC)** website **www.nfcc.org**

or call Toll-Free **1-800-388-2227** for assistance with credit problems and creditors.

If You Are Facing Bankruptcy:

Recent Federal law requires mandatory credit counseling before you can declare bankruptcy.

Go to: **<http://www.ftc.gov/bcp/menus/consumer/credit/debt.shtm>** to download the publication “Before You File for Personal Bankruptcy: Information about Credit Counseling and Debtor Education” and other useful publications.

The U.S. Department of Justice Trustee Program approves organizations to provide mandatory counseling *before* you can declare bankruptcy and mandatory debtor education *after* you declare bankruptcy. Go to:

www.usdoj.gov/ust/eo/bapcpa/ccde/index.htm

Facts & Figures:

In 2007, 1.6 million Californians took out 11 million payday loans, totaling over \$2.9 billion.

Avoid Future Financial Problems:

Paying bills and living paycheck to paycheck is never easy. Job loss, unexpected expenses or medical emergencies can be financially devastating. If you worry about debt:

- Create a budget (list all sources of income and all expenses, including total owed and monthly minimum payments).
- Cut all unnecessary expenses; prioritize your debts (pay most expensive interest rates first).
- Set aside even a small amount per paycheck to build up an emergency fund.

Contact the California Department of Corporations to check the status of a payday lender or to file a complaint. For additional copies of this publication, please e-mail your request to forms@corp.ca.gov

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